

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Shiawassee County CMH	County Shiawassee
Fiscal Year End September 30, 2007	Opinion Date March 28, 2008	Date Audit Report Submitted to State April 4, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

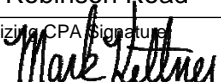
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517.787.6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673



Basic Financial Statements

For the Year Ended September 30, 2007



REHMANN ROBSON

Certified Public Accountants

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

March 28, 2008

To the Board of Directors
Shiawassee County Community Mental Health Authority
Owosso, Michigan

We have audited the accompanying financial statements of the business-type activities, the major fund, and the remaining fund information, of the ***Shiawassee County Community Mental Health Authority*** (the "Authority"), as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the business-type activities, the major fund, and remaining fund information, of the Shiawassee County Community Mental Health Authority, as of September 30, 2007, and the respective changes in financial position and its cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2008, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

BASIC FINANCIAL STATEMENTS

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
Statement of Net Assets
September 30, 2007

	Enterprise Fund	Internal Service Fund	Adjustments	Total Business-type Activities
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,389,565	\$ -	\$ -	\$ 2,389,565
Accounts receivable	170,396	-	-	170,396
Due from other governments	150,414	-	-	150,414
Prepaid items	101,310	-	-	101,310
Other assets	47,039	-	-	47,039
Total current assets	<u>2,858,724</u>	<u>-</u>	<u>-</u>	<u>2,858,724</u>
Noncurrent assets:				
Restricted cash and cash equivalents	1,236,016	-	-	1,236,016
Capital assets not being depreciated	1,436,522	-	-	1,436,522
Capital assets being depreciated, net	1,223,991	-	-	1,223,991
Total noncurrent assets	<u>3,896,529</u>	<u>-</u>	<u>-</u>	<u>3,896,529</u>
Total assets	<u>6,755,253</u>	<u>-</u>	<u>-</u>	<u>6,755,253</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	1,074,593	-	-	1,074,593
Accrued compensated absences, current portion	37,203	-	-	37,203
Mortgages payable, current portion	63,607	-	-	63,607
Total current liabilities	<u>1,175,403</u>	<u>-</u>	<u>-</u>	<u>1,175,403</u>
Noncurrent liabilities:				
Accrued compensated absences, net of current portion	148,813	-	-	148,813
Mortgages payable, net of current portion	2,433,062	-	-	2,433,062
Total noncurrent liabilities	<u>2,581,875</u>	<u>-</u>	<u>-</u>	<u>2,581,875</u>
Total liabilities	<u>3,757,278</u>	<u>-</u>	<u>-</u>	<u>3,757,278</u>
Net Assets				
Invested in capital assets, net of related debt	163,844	-	-	163,844
Restricted	1,050,000	-	-	1,050,000
Unrestricted	1,784,131	-	-	1,784,131
Total net assets	<u>\$ 2,997,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,997,975</u>

The accompanying notes are an integral part of these financial statements.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
Statement of Revenue, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2007

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Adjustments</u>	<u>Total Business-type Activities</u>
Operating revenues				
Medicaid	\$ 9,337,770	\$ -	\$ -	\$ 9,337,770
State general fund	1,664,911	-	-	1,664,911
Earned revenues, grants and federal programs	524,834	-	-	524,834
Charges for services	355,834	-	-	355,834
Local revenue:				
County appropriation	200,000	-	-	200,000
Rents	96,844	-	-	96,844
Other	51,590	-	-	51,590
	<u>12,231,783</u>	<u>-</u>	<u>-</u>	<u>12,231,783</u>
Total operating revenues				
	<u>12,231,783</u>	<u>-</u>	<u>-</u>	<u>12,231,783</u>
Operating expenses				
Salaries and wages	3,543,113	-	-	3,543,113
Fringe benefits	1,298,801	-	-	1,298,801
Contracted services and professional fees	4,273,136	-	-	4,273,136
State and local inpatient	866,146	-	-	866,146
Residential group home providers	1,116,016	-	-	1,116,016
Depreciation	86,058	-	-	86,058
Other operating costs	1,296,700	-	-	1,296,700
	<u>12,479,970</u>	<u>-</u>	<u>-</u>	<u>12,479,970</u>
Total operating expenses				
	<u>12,479,970</u>	<u>-</u>	<u>-</u>	<u>12,479,970</u>
Operating loss				
	<u>(248,187)</u>	<u>-</u>	<u>-</u>	<u>(248,187)</u>
Nonoperating revenues (expenses)				
Investment income	124,780	5,878	-	130,658
Interest expense	(39,273)	-	-	(39,273)
Gain on disposal of capital assets	8,583	-	-	8,583
	<u>94,090</u>	<u>5,878</u>	<u>-</u>	<u>99,968</u>
Total nonoperating revenues				
	<u>94,090</u>	<u>5,878</u>	<u>-</u>	<u>99,968</u>
Income (loss) before transfers				
	<u>(154,097)</u>	<u>5,878</u>	<u>-</u>	<u>(148,219)</u>
Transfers in	110,834	-	(110,834)	-
Transfers out	<u>-</u>	<u>(110,834)</u>	<u>110,834</u>	<u>-</u>
Change in net assets				
	<u>(43,263)</u>	<u>(104,956)</u>	<u>-</u>	<u>(148,219)</u>
Net assets, beginning of year, as restated				
	<u>3,041,238</u>	<u>104,956</u>	<u>-</u>	<u>3,146,194</u>
Net assets, end of year				
	<u>\$ 2,997,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,997,975</u>

The accompanying notes are an integral part of these financial statements.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2007

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
Cash flows from operating activities		
Cash received from customers	\$ 13,131,770	\$ -
Cash payments to employees	(4,834,802)	-
Cash payments to suppliers for goods and services	<u>(7,857,554)</u>	<u>-</u>
Net cash provided by operating activities	<u>439,414</u>	<u>-</u>
Cash flows from non-capital financing activities		
Cash transferred between funds	<u>5,878</u>	<u>(5,878)</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(2,563,823)	-
Issuance of mortgage agreements	2,500,996	-
Mortgage principal payments	(4,327)	-
Mortgage interest payments	(39,273)	-
Capital lease principal payments	(18,156)	-
Proceeds from sale of capital assets	<u>8,583</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(116,000)</u>	<u>-</u>
Cash flows from investing activities		
Investment income	<u>124,780</u>	<u>5,878</u>
Net increase in cash and cash equivalents	454,072	-
Cash and cash equivalents, beginning of year	<u>3,171,509</u>	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,625,581</u></u>	<u><u>\$ -</u></u>
Reconciliation to statement of net assets		
Cash and cash equivalents	\$ 2,389,565	\$ -
Restricted cash and cash equivalents	<u>1,236,016</u>	<u>-</u>
	<u><u>\$ 3,625,581</u></u>	<u><u>\$ -</u></u>

Continued...

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended September 30, 2007

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (248,187)	\$ -
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation/amortization	86,058	-
Changes in assets and liabilities:		
Accounts receivable	17,951	-
Due from other governments	977,669	-
Prepaid items	(14,463)	-
Other assets	(47,039)	-
Accounts payable and accrued liabilities	(244,054)	-
Unearned revenue	(95,633)	-
Accrued compensated absences	7,112	-
	<u>439,414</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 439,414</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Shiawassee County Community Mental Health Authority (SCCMHA or the “Authority”) operates under the provisions of Act 258, Public Acts of 1974 (the Michigan Mental Health Code), as amended. As the community mental health services program (CMHSP) provider for Shiawassee County, the Authority arranges for or provides support and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These support and services are available to Shiawassee County residents who meet eligibility and need criteria. The Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The Authority is a member of the Access Alliance of Michigan (AAM). This affiliation is composed of the community mental health services programs serving Bay-Arenac, Huron, Montcalm, Shiawassee and Tuscola Counties and was formed under the authority of the Intergovernmental Transfer of Functions and Responsibilities Act. Bay-Arenac Behavioral Health Authority (BABHA) is the lead agency for the AAM.

SCCMHA is a separate legal entity that accounts for its own financial activity under its contracts with MDCH and AAM.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles.

The Authority has no component units (i.e., separate legal entities for which the Authority is financially accountable) nor is it reported as a component unit of another government.

B. Basis of Presentation

As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The operations of the Authority are accounted for as an enterprise fund (a proprietary fund type) which is designed to be self-supporting. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, accountability, public policy, management control, or other purposes. The enterprise fund is the Authority's primary operating fund, and only major fund.

The internal service fund (a proprietary fund type) is used to account for assets held as a reserve against potential liabilities relative to and as allowed by the Authority's contract with the MDCH.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's operating fund are contract revenues from AAM (Medicaid) and MDCH (state general fund), earned revenues, first and third party billings (charges for services), county appropriation and local revenues. Internal service fund operating revenue, if any, is comprised of charges to other funds for risk financing and related investment income. Operating expenses include the cost of providing mental health services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Equity

Cash and Cash Equivalents. SCCMHA's cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

State statutes authorize units of local government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Receivables. Accounts receivable are shown net of an allowance of \$50,625 for uncollectibles, which is based on management's estimate using collection history trends. Amounts due from other governments consist primarily of amounts due from MDCH and AAM.

Prepaid Items. Payments made to vendors for services that will benefit periods beyond September 30, 2007, are recorded as *prepaid items* in the statement of net assets.

Other Assets. Other assets include deferred costs for debt origination and issuance costs; other assets are amortized over the term of the related debt.

Restricted Cash and Cash Equivalents. Cash and cash equivalents have been restricted for the future payment of compensated absences and in satisfaction of the mortgage debt loan covenant.

Capital Assets. Capital assets, which include buildings, furniture and fixtures, office equipment, and vehicles, are reported in the statement of net assets. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets, if any, are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized; improvements are capitalized.

The Authority's capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Vehicles	3
Equipment and furnishings	5-7
Computers	3
Buildings and improvements	10-40

Payables. Accounts payable and accrued liabilities consist of amounts due to vendors and services providers, along with management's estimate of the inpatient/residential liability. This estimate is based on the clients at each facility, the number of days each client is at each facility, and the daily rate charged for each facility.

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

Compensated Absences. Employees earn paid time off (PTO) on a monthly basis. Employees in the Non-Supervisory Bargaining Unit are allowed to accumulate and carryover 240 hours of PTO. Employees in the Supervisory Bargaining Unit, or who are not represented, are allowed to accumulate and carryover 480 hours of PTO. All employees are allowed to be paid up to 120 hours of PTO per calendar year. Any accrued PTO is paid out upon termination of employment.

II. DETAILED NOTES

A. Deposits

The following is a summary of cash and cash equivalent balances as of September 30, 2007:

Bank deposits (checking accounts and certificates of deposit)	\$ 3,624,181
Cash on hand	<u>1,400</u>
Total	<u>\$ 3,625,581</u>

Balances per statement of net assets:	
Cash and cash equivalents	\$ 2,389,565
Restricted cash and cash equivalents	<u>1,236,016</u>
Total	<u>\$ 3,625,581</u>

For deposits, custodial credit risk is the risk, that in the event of a bank failure, the Authority's deposits may not be returned to it. At year end, the carrying value of the Authority's deposits was \$3,624,181 and the bank balance was \$3,770,070. Of the bank balance, \$300,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Restricted cash and cash equivalents totaling \$1,236,016 includes \$186,016 for compensated absences and \$1,050,000 for mortgage loan debt covenant. Under this covenant as described in the Mortgage Security Agreement, the Authority is required to maintain a minimum cash balance of \$1,050,000 with Chemical Bank (the lender and depository institution) through the term that the related mortgages (*see Note C*) are outstanding.

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

Capital asset activity for the year ended September 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ -	\$ 291,000	\$ -	\$ 291,000
Construction in progress	-	1,145,522	-	1,145,522
	<u>-</u>	<u>1,436,522</u>	<u>-</u>	<u>1,436,522</u>
Capital assets being depreciated:				
Vehicles	1,014,248	-	(61,362)	952,886
Equipment and furnishings	1,017,148	-	-	1,017,148
Computers	520,519	-	-	520,519
Buildings and improvements	43,179	1,127,301	-	1,170,480
	<u>2,595,094</u>	<u>1,127,301</u>	<u>(61,362)</u>	<u>3,661,033</u>
Less accumulated depreciation for:				
Vehicles	(901,939)	(48,191)	61,362	(888,768)
Equipment and furnishings	(963,806)	(17,969)	-	(981,775)
Computers	(516,711)	(2,456)	-	(519,167)
Buildings and improvements	(29,890)	(17,442)	-	(47,332)
	<u>(2,412,346)</u>	<u>(86,058)</u>	<u>61,362</u>	<u>(2,437,042)</u>
Total capital assets being depreciated, net	<u>182,748</u>	<u>1,041,243</u>	<u>-</u>	<u>1,223,991</u>
Total capital assets, net	<u>\$ 182,748</u>	<u>\$ 2,477,765</u>	<u>\$ -</u>	<u>\$ 2,660,513</u>

C. Long-term Debt

During the year ended September 30, 2007, the Authority entered into a mortgage agreement with a local bank. The agreement provide for two loans under the mortgage, one for the office building portion of the property used by the Authority and the other for the warehouse portion that is leased to an unrelated party. The purpose for these borrowings was to finance the Authority's acquisition and renovation of new office space. Following is a summary of those loans:

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

	Interest Rate	Authorized	Drawn	Available
Mortgages:				
Office building	5.50%	\$ 2,204,107	\$ 1,176,644	\$ 1,027,463
Warehouse	8.25%	1,324,352	1,324,352	-
		<u>\$ 3,528,459</u>	<u>\$ 2,500,996</u>	<u>\$ 1,027,463</u>

The loans are structured to allow the Authority to draw up to the authorized loan balance to pay for acquisition and renovation costs as they are incurred. The mortgage agreement also contains a covenant that the Authority maintain a minimum depository account balance with the bank of not less than \$1,050,000 until the loans are repaid. The maturity date for both loans is May 1, 2032.

Following is a summary of changes in long-term debt of the Authority for the year ended September 30, 2007:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within one year
Mortgages:					
Office building	\$ -	\$ 1,176,644	\$ -	\$ 1,176,644	\$ 48,367
Warehouse	-	1,324,352	(4,327)	1,320,025	15,240
	-	2,500,996	(4,327)	2,496,669	63,607
Capital lease	18,155	-	(18,155)	-	-
Compensated absences	178,904	7,112	-	186,016	37,203
	<u>\$ 197,059</u>	<u>\$ 2,508,108</u>	<u>\$ (22,482)</u>	<u>\$ 2,682,685</u>	<u>\$ 100,810</u>

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

The annual debt service requirements to maturity for the taxable mortgage loan are as follows:

<u>Year ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 15,240	\$ 99,621
2009	18,341	106,962
2010	19,912	105,390
2011	21,619	103,684
2012	23,471	101,831
2013-2017	151,202	475,309
2018-2022	228,083	398,429
2023-2027	344,053	282,458
2028-2032	498,104	107,378
	<u>\$ 1,320,025</u>	<u>\$ 1,781,062</u>

A debt service to maturity schedule is not provided for the tax exempt mortgage loan since it has been partially drawn by the Authority as of September 30, 2007; as such a final repayment amortization schedule is not yet determinable and/or available. Nevertheless, based on an initial repayment schedule (assuming the total authorized loan will be drawn), the principal due within year is calculated at \$48,367 for the tax exempt loan.

The Authority is also considering the extent of its capital asset needs, particularly related to the newly acquired and renovated building, and may determine it necessary to enter into a third loan with Chemical Bank for approximately \$300,000 to meet these needs.

D. Lease Commitments

The Authority leases certain real and personal property under operating leases. Lease expense recorded for the year ended September 30, 2007 was \$356,214. Future minimum lease payments under these agreements as of September 30, 2007, are summarized as follows:

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2008	\$ 195,102
2009	80,765
2010	70,532
2011	70,532
2012	70,532
2013-2014	141,064

The Authority is also the lessor for the warehouse portion of the property previously described in note II-C. The lease term is through April 30, 2008 and contains no lease renewal options. The monthly lease amount is \$9,652 per month or \$67,564 for the seven month period from October 1, 2007 through April 30, 2008.

E. Restricted Net Assets

The Authority reports restricted net assets for certain reserve accounts established pursuant to the State of Michigan Mental Health Code. As of September 30, 2007, restricted net assets was comprised as follows:

	<u>Compensated</u> <u>Absences</u>	<u>Debt</u> <u>Covenant</u>	<u>Total</u>
Restricted cash and cash equivalents	\$ 186,016	\$ 1,050,000	\$ 1,236,016
Less: related payables	<u>(186,016)</u>	<u>-</u>	<u>(186,016)</u>
Restricted net assets	<u><u>\$ -</u></u>	<u><u>\$ 1,050,000</u></u>	<u><u>\$ 1,050,000</u></u>

III. OTHER INFORMATION

A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The Authority manages its risk exposures through commercial insurance. On risks which are commercially insured, settlements have not exceeded insurance coverage in any of the past three years.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The Authority has a managed care risk contract with the Michigan Department of Community Health (MDCH) using general fund formula funding for services to priority populations. Heretofore, the Authority has self-insured the risk for this contract with an internal service fund risk reserve. The MDCH contract provides for the use of contract funds to establish such a risk reserve that is restricted to meet future risk obligations. Expenditures or transfers from the internal service fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals. This occurred during the current fiscal year and resulted in the internal service fund risk reserve being exhausted of its resources and being closed.

B. MDCH Revenue and Economic Dependency

Revenues paid either directly or indirectly by the MDCH represent over 90% of the Authority's total revenues and, therefore, the Authority is economically dependent on the revenues from the MDCH.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

D. Postemployment Benefits

The Authority provides health care benefits to all employees who retire from the Authority at age 65 and are vested in the employer's retirement plan under MERS. A \$275 monthly deductible is paid by participating retirees. Plan benefits are funded on a pay-as-you-go basis. Net plan costs for the year ended September 30, 2007 were \$12,990.

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

E. Retirement Plan

The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

The Authority is required to contribute at an actuarially determined rate; the current rate ranges from 7.62% to 9.51% of annual covered payroll depending on the division or bargaining unit. Employees are not required to contribute. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Authority, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the Authority.

For the year ended September 30, 2007, the Authority's annual pension cost of \$280,303 for MERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 29 years.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Annual Years Ended September 30,</u>	<u>Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 403,415	100%	\$ -
2006	295,355	100	-
2007	280,303	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
12/31/05	\$ 6,944,966	\$ 7,042,292	\$ 97,326	98.6%	\$ 3,474,333	2.8%
12/31/06	7,509,633	7,542,905	33,272	99.6%	3,671,078	0.9%

Funding progress data for the actuarial valuation as of December 31, 2004 is not available for the Authority. At that time, the Authority's data was combined with that of Shiawassee County. Thus, in order to provide more meaningful financial information for the Authority, only two years of funding progress data is presented herein; in subsequent years a minimum of three years of such data will be provided.

F. Contingent Liabilities

Amounts received or receivable from grantor/contract agencies are subject to audit and potential adjustment by those agencies, principally the state and federal governments. Any disallowed costs, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of costs which may be disallowed by the grantor or contract agencies cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

**SHIAWASSEE COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

The Authority is periodically a defendant in various lawsuits. Although the outcome of such lawsuits currently pending or threatened, if any, is not presently determinable, it is the opinion of the Authority's management and counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

F. Restatement

Previously, the Authority's operations were reported as a governmental fund on the modified accrual basis of accounting and then adjusted to the accrual basis of accounting for reporting, under GASB Statement No. 34, as governmental activities in the government-wide financial statements. Effective with the financial statements for the year ended September 30, 2007, the Authority has significantly simplified its financial reporting by converting its operating fund from a governmental to an enterprise fund, which follows the accrual basis of accounting. Accordingly, the beginning net assets of the enterprise fund are equal to the prior year ending net assets of the governmental activities.

* * * * *



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

March 28, 2008

To the Board of Directors
Shiawassee County Community Mental Health Authority
Owosso, Michigan

We have audited the basic financial statements of the *Shiawassee County Community Mental Health Authority* as of and for the year ended September 30, 2007, and have issued our report thereon dated March 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to the management of the Authority in a separate letter dated March 28, 2008.

This report is intended solely for the information and use of the Shiawassee County Community Mental Health Authority Board, management, others in the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



March 28, 2008

To the Board of Directors of the Shiawassee
County Community Mental Health Authority
Owosso, Michigan

We have audited the financial statements of the Shiawassee County Community Mental Health Authority for the year ended September 30, 2007, and have issued our report thereon dated March 28, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated September 19, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except for a change in the presentation of the financial statements from governmental to enterprise fund reporting. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the collectibility of first and third party receivables based on historical experience and the aging of current receivables.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit, other than the level of preparedness as described in the attached memorandum.

This letter and the accompanying memorandum are intended for the use of the Board of Directors, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style. The first name "Lehmann" is followed by a space and then the last name "Johnson". The ink is dark and the background is white.

Shiawassee County Community Mental Health Authority

Comments and Recommendations

For the Year Ended September 30, 2007

In planning and performing our audit of the financial statements of the Shiawassee County Community Mental Health Authority as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be significant deficiencies or material weaknesses, as defined above.

Other Matters

Year-End Closeout and Audit Preparation. Both we and the Authority agree that the audit was not completed and the report issued in as timely a fashion as we had both originally anticipated. Hiring a new finance director, changing auditors and moving to new offices certainly contributed to the delays. Of particular note, though, the Authority was not at all ready for the audit to begin on November 5, the original start date as requested by the Authority; on the restart date of November 19, the Authority was a little more prepared, but still far from fully prepared. As a result, not only was the audit delayed in waiting for the Authority to get fully closed and audit ready, the completion work was pushed into our other scheduled work in January through March causing a variety of disruptions and forcing much of the work to be performed by a much higher level of staff than contemplated in our fee proposal. Accordingly, to complete future audits within the time frame desired by the Authority and at the quoted fee estimate, the Authority must do a much better job of determining when it will be ready and then fulfilling that commitment.

Shiawasse County Community Mental Health Authority

Comments and Recommendations

For the Year Ended September 30, 2007

Independent Review and Approval of General Journal Entries. Currently, the Authority has no independent review and approval process for general journal entries prepared by the Finance Director. Because general journal entries are convenient mechanism through which fraudulent activity can be concealed, it is highly advisable that all general journal entries be reviewed and approved by a person independent of preparing and posting the entry. Such review and approval needs to be documented (by initialing and dating the entry) and should ensure that appropriate source documents are present to support the purpose and dollar amount of the entry.

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